

Message Text

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PAGE 01 HELSIN 01255 01 OF 02 251513Z

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ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 EURE-00 CU-04 CIAE-00 DODE-00

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AID-20 EB-11 CIEP-02 STR-08 OMB-01 CEA-02 DRC-01

AGR-20 NIC-01 COME-00 FRB-02 SIL-01 LAB-06 FEAE-00

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FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC PRIORITY 7597

INFO AMCONSUL LENINGRAD

AMEMBASSY COPENHAGEN

AMEMBASSY MOSCOW

AMEMBASSY OSLO

AMEMBASSY REYKJAVIK

AMEMBASSY STOCKHOLM

USMISSION NATO

USMISSION GENEVA

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 1 OF 2 HELSINKI 1255

GENEVA FOR CSCE

E.O. 11652: GDS

TAGS: PFOR, FI

SUBJECT: TRENDS IN FINNISH FOREIGN, DOMESTIC AND
ECONOMIC POLICIES

REF: STOESEL LETTER 12/4/73; HELSINKI 603

1. SUMMARY: THE FINNS ARE READY AND STILL PUSHING FOR
AND "EARLY" STAGE III OF THE CSCE IN HELSINKI. THEY ARE
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PAGE 02 HELSIN 01255 01 OF 02 251513Z

PRIVATELY BECOMING RECONCILED TO THIS NOT HAPPENING

BEFORE OCTOBER, IF THEN. US-FINNISH RELATIONS CONTINUE ON THE UPSWING, WITH FRIENDLY MEETINGS WITH PRESIDENT KEKKONEN. FOREIGN MINISTER KARJALAINEN APPEARS TO HAVE THE SOVIET'S BLESSING AS KEKKONEN'S EVENTUAL SUCCESSOR; HE WAS RECEIVED IN MOSCOW BY BREZHNEV. KARJALAINEN MADE HIS OFFICIAL VISIT FIRST TO THE GDR RATHER THAN THE FRG, WHICH HE WILL VISIT THIS FALL. THE COALITION GOVERNMENT IS STILL HANGING ON AND IS EXPECTED TO LAST AT LEAST THROUGH THE SUMMER. HARD ECONOMIC DECISIONS COMING UP MAY CAUSE IT TO BREAK APART THIS FALL, AND EARLY ELECTIONS ARE QUITE POSSIBLE. THE NONSOCIALIST PARTIES HAVE HELD THEIR CONGRESSES WITHOUT ANY UNEXPECTED LEADERSHIP CHANGES. THE COMMUNIST PARTY RIFT CONTINUES UNABATED, AND THE NEXT PARTY CONGRESS MAY BE DELAYED BECAUSE OF THIS. THE FINNISH ECONOMY IS IN THE GRIP OF VERY HIGH INFLATIONARY RATES, THE PRICE INDEX IS RISING BY SEVENTEEN PER CENT, AND THE TRADE BALANCE HAS DETERIORATED SHARPLY AS A RESULT OF INCREASED ENERGY COSTS. THE SOVIETS ARE CHARGING HIGHER THAN WORLD MARKET PRICES FOR THEIR OIL, BUT "CARRYING" THE FINNS FINANCIALLY FOR THE NEXT FEW YEARS, SOMEWHAT OFFSETTING THE ADDED BURDEN. THE GOVERNMENT MUST COME UP WITH SOME "STABILIZATION" PROGRAM BUT IS HAVING DIFFICULTY IN AGREEING ON ONE. RE-VALUATION HAS BEEN SUGGESTED AS PART OF THE PACKAGE BUT IS STRONGLY OPPOSED IN MANY IMPORTANT QUARTERS. THE SOVIETS HAVE MOVED UP TO FIRST PLACE AMONG FINLAND'S SUPPLIERS, WITH 20 PER CENT OF THE MARKET. DESPITE THIS, U.S. EXPORTS TO FINLAND HAVE ALSO INCREASED FROM 4.4 TO 5.7 PER CENT--MAKING THE U.S. ONE OF THE FEW WESTERN COUNTRIES TO ACCOMPLISH THIS. THE FINNS HAVE CONCLUDED "FREE TRADE" AGREEMENTS WITH BULGARIA AND HUNGARY WHICH ARE MOSTLY WINDOW DRESSING AND NOT EXPECTED TO INCREASE TRADE IN ANY SIGNIFICANT WAY. END SUMMARY.

2. TRENDS IN FINNISH FOREIGN POLICY

CSCE. ALTHOUGH THE FINNS HAVE MOVED ON WITH PREPARATIONS FOR A "HIGHEST LEVEL" THIRD STAGE OF CSCE IN HELSINKI IN JULY AND HAVE ANNOUNCED THAT THEY CAN BE READY WITHIN A WEEK, THEY HAVE ALSO, AT LEAST PRIVATELY, COME TO ACCEPT CONFIDENTIAL

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PAGE 03 HELSIN 01255 01 OF 02 251513Z

THE NEAR CERTAINTY THAT JULY WILL COME AND GO WITHOUT THE HOPED FOR BASH IN HELSINKI. WHILE ACCEPTING THE "INEVITABLE", THE FINNS HAVE PUBLICLY BEEN PUSHING FOR MOVEMENT TOWARD AN EARLY CONCLUSION OF STAGE TWO IN SPEECHES BY PRESIDENT KEKKONEN, FOREIGN MINISTER KARJALAINEN, AND OTHER LEADING LIGHTS. THEY HAVE MADE SEVERAL "COMPROMISE" PROPOSALS AT GENEVA, WHILE AT THE SAME TIME ASSIDUOUSLY GUARDING THEIR CONTINUED CREDIBILITY AS A BRIDGE BETWEEN

EAST AND WEST. THE FINNS HAVE TOLD US THAT THEY WOULD LIKE TO SEE MORE ACTIVE AMERICAN PARTICIPATION IN THE CSCE, I.E., SOME U.S. ARM-TWISTING OF ALLIES AND FRIENDS. KEKKONEN ALSO MADE THE POINT, PRIVATELY, THAT THE HOLDING OF THE CSCE WAS MORE IMPORTANT IN AND OF ITSELF THAN THE ACTUAL CONTENT OF FINAL DOCUMENTS. DESPITE ALL THIS, THE FINNS STILL INSIST THAT THE FINAL RESULT MUST BE MEANINGFUL AND NOT JUST A PIECE OF PAPER. THE BETTING HERE NOW IS THAT THE THIRD STAGE WILL COME ABOUT IN OCTOBER AT THE EARLIEST, BUT THERE IS A CERTAIN AMOUNT OF PESSIMISM AND FEAR THAT IT MIGHT SLIP EVEN FURTHER INTO THE FUTURE OR FALTER COMPLETELY.

3. FINNISH-US RELATIONS. NO PROBLEMS HAVE DEVELOPED IN FINNISH-US RELATIONS, AND NONE ARE ANTICIPATED. CONTACTS BETWEEN THE EMBASSY AND FINNISH POWER CIRCLES CONTINUE ON THE UPSWING AND THE HIGHEST LEVEL. PRESIDENT KEKKONEN MADE AN OVERNIGHT STOPOVER IN NEW YORK MARCH 30 ON HIS WAY TO A PRIVATE FISHING TRIP IN MEXICO, ARRANGED BY LUMMUS CO. OF N.J. ON MAY 20, KEKKONEN ACCEPTED THE AMBASSADOR'S DINNER INVITATION. THIS WAS A RARE OCCASION INDEED, SINCE HE VERY SELDOM ACCEPTS SUCH INVITATIONS. EVEN MORE UNUSUAL WAS THE FACT THAT KEKKONEN BROKE HIS OWN RULE OF LEAVING BY ELEVEN P.M. AND STAYED FOR AN EXTRA HOUR AND A HALF. HE WAS RELAXED, FRIENDLY, AND ENJOYED HIMSELF, WHICH IS BOTH A REFLECTION OF THE PRESENT STATE OF FINNISH-AMERICAN RELATIONS IN GENERAL AND RELATIONS ON THE LOCAL SCENE.

4. FINNISH-COMMUNIST RELATIONS. ALTHOUGH THE FINNS ALWAYS EMPHASIZE THEIR NORDIC TIES AND ORIENTATION AND SEEK TO MAINTAIN THE BEST POSSIBLE RELATIONS WITH THE WEST, THEY NEVER FORGET THE CENTRAL PLACE THAT THE SOVIET UNION

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PAGE 04 HELSIN 01255 01 OF 02 251513Z

NECESSARILY OCCUPIES ON THEIR FOREIGN POLICY FIRMAMENT. THE TREND OF INNUMERABLE EXCHANGES OF VISITS ON ALL LEVELS CONTINUES UNABATED, WITH FINNISH MINISTERS AND OFFICIALS CRISSCROSSING THE MAP OF EASTERN EUROPE WITH GREAT FREQUENCY. MOST NOTABLE OF SUCH RECENT TRAVELS HAVE BEEN FOREIGN MINISTER KARJALAINEN'S TRIPS TO MOSCOW APRIL 25-26 AND BERLIN (EAST) MAY 27-29. WHILE IN MOSCOW, KARJALAINEN WAS RECEIVED BY BREZHNEV. THIS IS TAKEN BY SOME AS A SIGN THAT KARJALAINEN NOW HAS THE SOVIET'S BLESSING AS THE EVENTUAL SUCCESSOR TO KEKKONEN. THAT KARJALAINEN MADE HIS FIRST OFFICIAL VISIT TO THE GDR RATHER THAN THE FRG IS NO ACCIDENT BUT ANOTHER INDICATION THAT ALL THINGS BEING EQUAL, THE EAST TAKES PRIORITY. THE FINNS EXPLAIN THIS AWAY BY SAYING THAT HE COULD NOT BE IN BOTH PLACES AT THE SAME TIME, AN OBVIOUS LIMITATION ON AN EVENHANDED

POLICY, AND THAT THE TIMING HAD BEEN MORE SUITABLE FOR
THE GDR. HE IS EXPECTED TO VISIT THE FRG THIS FALL,
PROBABLY IN SEPTEMBER.

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PAGE 01 HELSIN 01255 02 OF 02 251545Z

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C O N F I D E N T I A L SECTION 2 OF 2 HELSINKI 1255

5. TRENDS IN FINNISH DOMESTIC POLICY.

THE SOCIAL DEMOCRATIC-LED COALITION GOVERNMENT IS STILL
WITH US AND CONTINUES TO CLIMB THE LONGEVITY LADDER. IT
IS EXPECTED TO LAST AT LEAST THROUGH THE SUMMER AND WILL
THEN REACH SEVENTH PLACE OUT OF THE FIFTY-SIX GOVERNMENTS
IN FINLAND SINCE INDEPENDENCE. THE GOVERNMENT IS FACED
WITH SOME VERY TOUGH ECONOMIC DECISIONS, WHERE THE
INTERESTS OF THE SUPPORTERS OF THE COALITION PARTNERS

CLASH. THESE ISSUES MAY BE TOO DIFFICULT TO SOLVE OR
MAY BE USED BY ONE OR MORE OF THE PARTNERS AS A GOOD
EXCUSE AND CAMPAIGN ISSUE TO BREAK UP THE GOVERNMENT.
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PAGE 02 HELSIN 01255 02 OF 02 251545Z

THERE IS MORE AND MORE TALK ABOUT THIS GOVERNMENT HAVING
OUTLASTED ITSELF, THAT NERVES ARE FRAYED, AND THAT THE
NECESSARY WILL TO CONTINUE SEEKING COMPROMISE SOLUTIONS
IS LOST. THE FACT THAT THERE IS STILL NO MORE CLEAR AN
ALTERNATIVE FOR A MAJORITY GOVERNMENT, NO GREAT DESIRE
FOR EARLY ELECTIONS, AND NO INDICATION THAT PRESIDENT
KEKKONEN IS READY TO ACCEPT CHANGES, IMPROVES THE ODDS
FOR THE PRESENT GOVERNMENT TO HANG ON FOR YET ANOTHER FEW
MONTHS. THE PROGNOSIS IS, HOWEVER, FOR A BREAK-UP LATE
THIS YEAR AND ELECTIONS, ONE YEAR EARLY, NEXT WINTER.

6 THE THREE NON-SOCIALIST PARTIES IN THE GOVERNMENT,
AND SOME OTHER PARTIES, HAVE HELD CONGRESSES DURING THIS
QUARTER. THERE HAVE BEEN NO DRASTIC OR UNEXPECTED LEADER-
SHIP CHANGES. FORCES WITHIN THE CENTER PARTY THAT WERE
BENT ON CHALLENGING PARTY CHAIRMAN VIROLAINEN (PRESENT
FINANCE MINISTER) SAW THAT THEY DID NOT HAVE THE VOTES
AND DECIDED TO ADOPT A WAIT UNTIL 1976 ATTITUDE. WHILE
IT BECAME CLEAR THAT VIROLAINEN HAS RANK AND FILE SUPPORT
FOR THE PARTY CHAIRMANSHIP, IT IS EQUALLY CLEAR THAT
THE SAME PEOPLE TEND TO FAVOR KARJALAINEN AS THEIR PRESI-
DENTIAL CANDIDATE.

7. THE COMMUNISTS MANAGED TO MUDDLE THROUGH THEIR 30-
YEAR CELEBRATIONS DESPITE THE CONTINUING SERIOUS RIFT
BETWEEN THE TWO MAIN FACTIONS. NOW THE PREPARATIONS
FOR THE NEXT PARTY CONGRESS SHOULD BE STARTING, BUT IT
IS QUESTIONABLE WHETHER IT WILL BE HELD ON SCHEDULE NEXT
YEAR. THE TREND IS NEITHER FOR ANY COMMUNIST ELECTORAL
GAINS OR PARTICIPATION IN GOVERNMENT, UNLESS KEKKONEN
SHOULD DECIDE THAT THIS IS ABSOLUTELY NECESSARY.

8. TRENDS IN FINNISH ECONOMIC POLICY
THE FINNISH ECONOMY IS IN THE GRIP OF ONE OF THE HIGHEST
INFLATION RATES OF THE INDUSTRIALIZED WORLD; THE CONSUMER
PRICE INDEX IS RISING BY AN ANNUAL RATE OF OVER 17 PER
CENT. THE BALANCE OF TRADE, MEANWHILE, HAS DETERIORATED
SHARPLY UNDER THE IMPACT OF INCREASED COSTS OF ENERGY TO
WHICH THE FINNISH ECONOMY IS PARTICULARLY VULNERABLE
BECAUSE OF THE SEVERE WINTERS, DIFFICULTY OF TRANSPORT,
ENERGY INTENSIVE INDUSTRIES AND ABSENCE OF ANY DOMESTIC
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PAGE 03 HELSIN 01255 02 OF 02 251545Z

SOURCES OF FOSSIL FUELS. THE CURRENT ACCOUNT DEFICIT IS PARTLY BEING FINANCED BY THE FINNISH-SOVIET BI-LATERAL TRADING ARRANGEMENT WHICH IN EFFECT EXTENDS INTEREST-FREE FINANCING TO COVER THE INCREASED COSTS OF OIL IMPORTS OVER THE NEXT FEW YEARS. THE "INTEREST-FREE" ASPECT, HOWEVER, IS PROBABLY MORE THAN OFFSET BY THE HIGHER THAN WORLD MARKET PRICE (A TIGHTLY HELD STATE SECRET; GUESSES PUT IT AT AROUND \$13 PER BARREL). THIS PRICE IS TO BE RENEGOTIATED SEMI-ANNUALLY--TALKS HAVE BEEN INITIATED TO ESTABLISH THE PRICE FOR THE SECOND HALF OF THIS YEAR, BUT THERE APPEARS TO BE LITTLE REASON FOR THE SOVIET UNION TO MAKE ANY PRICE REDUCTION BARRING A COLLAPSE OF OPEC AND THE INTERNATIONAL CARTEL PRICE.

9. WITH ONE QUARTER OF THE ECONOMY DEVOTED TO IMPORTS AND EXPORTS, THE FOREIGN VALUE OF THE FINNMARK IS A VITAL QUANTITY IN THE EQUATION. THE ECONOMIC POLICY MAKERS FIND THEMSELVES IN A DILEMMA: DEVALUATION MIGHT NOT HELP INCREASE EXPORTS--WHICH ARE DOING QUITE WELL--BUT MERELY ADD TO COST PRESSURE SINCE ALL FOSSIL FUEL, MUCH RAW MATERIAL AND CAPITAL EQUIPMENT IS IMPORTED. REVALUATION OF THE FINNMARK IS BEING SERIOUSLY CONSIDERED BY THE GOVERNMENT AS AN ANTI-INFLATIONARY MEASURE, BUT IN VIEW OF THE BALANCE OF PAYMENTS DEFICIT WOULD BE ENTIRELY UNORTHODOX AND IS IN ANY CASE STOUTLY OPPOSED BY THE EXPORTING INDUSTRIES AND BY THE CENTER PARTY (MAJOR GOVERNMENT COALITION PARTNER), SINCE SUCH A MOVE WOULD HURT THEIR RURAL CONSTITUENTS IN THE FORM OF LOWER TIMBER PRICES. PRIME MINISTER SORSA HAS ANNOUNCED HIS GOVERNMENT'S INTENTION TO PRODUCE AN ECONOMIC STABILIZATION PACKAGE DURING THE CURRENT MONTH (JUNE), BUT IT APPEARS THAT THIS DEADLINE MAY NOT BE MET.

10. DESPITE THE FACT THAT THE SOVIET UNION HAS INCREASED ITS SHARE OF FINNISH IMPORTS TO 20 PER CENT OF THE MARKET TO BECOME FINLAND'S LARGEST SUPPLIER, THE UNITED STATES HAS MANAGED TO ACTUALLY INCREASE ITS PERCENTAGE OF THE FINNISH IMPORTS DURING THE FIRST FOUR MONTHS OF THIS YEAR--ONE OF THE FEW WESTERN COUNTRIES TO DO SO--TO 5.7 PER CENT AS COMPARED TO 4.4 PER CENT DURING THE SAME PERIOD IN 1973. A CURSORY EXAMINATION OF THE U.S. EXPORT
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PAGE 04 HELSIN 01255 02 OF 02 251545Z

CATEGORIES DOES NOT REVEAL ANY EXTRAORDINARY TRANSACTIONS--THE GROWTH SEEMS TO BE SOLIDLY BASED. U.S.-FINNISH COMMERCIAL RELATIONS RECEIVED FAVORABLE LOCAL PUBLICITY WITH THE VISIT OF THE STATE OF MAINE TRAINING VESSEL TO HELSINKI AT THE END OF APRIL. AMERICAN VIEWS ON INTERNATIONAL

TRADE NEGOTIATIONS WERE PRESENTED TO A TOP LEVEL GROUP OF INDUSTRIAL, ECONOMIC, BANKING AND GOVERNMENT LEADERS BY SPECIAL TRADE REPRESENTATIVE AMBASSADOR MALMGREN.

11. SOME TIME AGO, THE FINNS CONCEIVED THE IDEA OF NEGOTIATING FREE TRADE AGREEMENTS WITH THE CEMA COUNTRIES THAT WOULD PROVIDE A SORT OF COUNTERPART GESTURE TO BALANCE THE FREE TRADE AGREEMENT WITH THE EC. THIS INITIATIVE HAS MET WITH VARYING DEGREES OF INTEREST AND WARINESS ON THE PART OF THE CEMA COUNTRIES. THE FIRST TWO SUCH AGREEMENTS WERE RECENTLY SIGNED WITH HUNGARY AND BULGARIA AND CAN BE EXPECTED TO HAVE LITTLE EFFECT ON THE TRADE OF THE COUNTRIES CONCERNED, BUT MAY RAISE SOME HACKLES AT THE GATT.
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